

## Message Text

CONFIDENTIAL

PAGE 01 STATE 062056

70

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SAM-01 SP-02 SS-15 STR-04 NSCE-00 SSO-00 USIE-00

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E.O. 11652: GDS

TAGS: ENRG

SUBJECT: IEA: US PROPOSALS FOR IMPLEMENTING LONG TERM  
PROGRAM

1. FOLLOWING IS US PAPER WE INTEND TO INTRODUCE AT  
MARCH 16 GOVERNING BOARD MEETING. MISSION IS REQUESTED  
TO PASS TEXT SOONEST TO SECRETARIAT FOR PROCESSING TO  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 062056

ENSURE IT WILL BE AVAILABLE TO DELEGATIONS AT GB MEETING.

2. QUOTE: UNITED STATES PROPOSALS FOR IMPLEMENTING THE LONG TERM PROGRAM TO REINFORCE IEA REDUCED DEPENDENCY OBJECTIVES.

THE IEA NOW STAND AT A CRITICAL JUNCTURE. OUR PROGRESS TO DATE HAS BEEN IMPRESSIVE.

-- WE ARE APPROACHING THE COMPLETION OF AN EMERGENCY PROGRAM, AND HAVE DECIDED TO RAISE THE EMERGENCY STOCK COMMITMENT TO 70 DAYS;

-- WE HAVE MADE MAJOR STRIDES TOWARD THE COMPLETION OF A GENERAL OIL MARKET INFORMATION SYSTEM WHICH, TOGETHER WITH CONSULTATIONS WITH INDIVIDUAL COMPANIES, WILL GREATLY ADD TO OUR KNOWLEDGE OF THE OPERATION OF THE INTERNATIONAL OIL MARKET;

-- WE HAVE MADE MAJOR PROGRESS IN ESTABLISHING A JOINT STRATEGY FOR OUR DIALOGUE WITH OIL PRODUCERS AND OTHER CONSUMERS IN THE ENERGY COMMISSION; AND

-- WE HAVE ADOPTED A COMPREHENSIVE PROGRAM OF LONG-TERM COOPERATION TO REDUCE OUR DEPENDENCE ON IMPORTED OIL.

THUS, WE HAVE EITHER COMPLETED OR ESTABLISHED THE FRAMEWORK FOR IMPLEMENTATION OF THE BASIC PROVISIONS OF THE INTERNATIONAL ENERGY PROGRAM.

ALL THESE ACTIONS ARE AIMED AT REDUCING SIGNIFICANTLY OUR ENERGY VULNERABILITY -- OUR COMMON VULNERABILITY TO INTERRUPTIONS IN THE SUPPLY OF IMPORTED OIL AND TO UNPREDICTABLE INCREASES IN OIL PRICES OVER WHICH CONSUMING NATIONS HAVE NO INFLUENCE. IMPROVED RELATIONS WITH OIL PRODUCING COUNTRIES CAN OFFER SOME REDUCTION IN OUR VULNERABILITY, AT LEAST IN THE NEAR TERM. BUT BASIC TO THE IEA'S COMMITMENT TO ENERGY COOPERATION IS OUR COMMON REALIZATION THAT THIS UNACCEPTABLE ECONOMIC AND POLITICAL VULNERABILITY CAN ONLY BE REDUCED THROUGH

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 062056

OUR OWN ACTION TO REDUCE OUR DEPENDENCE ON IMPORTED OIL. AS LONG AS IEA DEMAND FOR OPEC OIL REMAINS AT OR EVEN ABOVE CURRENT LEVELS, OUR VULNERABILITY REMAINS UNACCEPTABLY GREAT. ONLY BY SUBSTANTIALLY REDUCING OUR DEPENDENCE OVER TIME CAN THE INDUSTRIALIZED NATIONS REGAIN THE ESSENTIAL DEGREE OF INFLUENCE OVER THE WORLD OIL PRICE.

HOWEVER, THE RECENT PRELIMINARY ANALYSIS OF IMPORT  
DEPENDENCY TRENDS BY THE SECRETARIAT IN THE DRAFT  
UPDATE OF THE LONG TERM ENERGY ASSESSMENT (LTEA) SHOWS  
THAT, GIVEN A CONTINUATION OF CURRENT GOVERNMENT POLICIES,  
OUR DEPENDENCE ON OPEC OIL EXPORTS COULD INCREASE SUB-  
STANTIAL OVER THE NEXT TEN YEARS. THE PRELIMINARY  
LTEA PROJECTIONS INDICATE THE FOLLOWING LEVEL OF OIL  
IMPORTS FOR OECD MEMBERS AS A GROUP THROUGH 1985:

1975 (ACTUAL).....21 MILLION B/D  
1980.....25.6 MILLION B/D  
1985..... 31.6 MILLION B/D

THIS ESTIMATE ASSUMES THE CONTINUATION OF CURRENT POLICIES,  
CONSTANT OIL PRICES AND RELATIVELY MODEST ECONOMIC  
GROWTH. THE BULK OF THE PROJECTED INCREASE IN IMPORTS  
WOULD RESULT FROM IMPORT GROWTH IN THE UNITED STATES AND  
JAPAN. IMPORTS OF EUROPEAN COUNTRIES ARE PROJECTED TO

INCREASE ONLY SLIGHTLY, BY ABOUT 400,000 B/D, AS NORTH SEA  
OIL AND GAS COME INTO PRODUCTION.

BECAUSE OF THE GLOBAL DISTRIBUTION OF KNOWN OIL  
RESERVES, THIS PROJECTION IMPLIES THAT THROUGH 1985:

-- THE RELATIVE DEPENDENCE OF IEA COUNTRIES ON INSECURE  
PERSIAN GULF OIL SOURCES IS LIKELY TO INCREASE, UNLESS  
MARKET FORCES ARE STIMULATED IN SOME FASHION.

-- OPEC WILL BE ABLE TO AT LEAST MAINTAIN, AND PERHAPS  
INCREASE SUBSTANTIALLY, THE REAL PRICE OF OIL IMPORTS.

-- THE COST AND RELIABILITY OF IEA MEMBERS' OIL SUPPLIES  
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 062056

WILL REMAIN SUBJECT TO SUBSTANTIAL UNCERTAINTY.

OPEC COUNTRIES DOUBTLESS SHARE THESE PROJECTIONS OF  
FUTURE DEMAND AND SUPPLY TRENDS. THE MAJOR INDUSTRIALIZED  
COUNTRIES, IN OPEC'S EYES, APPEAR TO HAVE ADJUSTED TO  
THE FIVEFOLD INCREASE IN OIL PRICES IMPOSED SINCE LATE  
1973. OPEC PERCEPTIONS OF A TREND TOWARD SUBSTANTIALLY  
INCREASED -- RATHER THAN DECLINING -- DEPENDENCE BY THE  
INDUSTRIALIZED NATIONS ON OIL IMPORTS THROUGH 1985 AND  
PERHAPS BEYOND WILL HAVE A MAJOR IMPACT ON PRICING  
DECISIONS IN THE SHORT TERM. (FOR EVERY \$1 INCREASE IN  
THE WORLD PRICE OF OIL, IEA COUNTRIES WILL PAY APPROX-  
IMATELY \$10 BILLION ADDITIONALLY EACH YEAR FOR OIL IMPORTS.)

WE MUST ALSO GUARD AGAINST THE POSSIBILITY THAT THE

SENSE OF URGENCY CREATED BY THE OIL EMBARGO AND THE MASSIVE PRICE INCREASES OF 1973-1974 WILL BECOME PROGRESSIVELY LESS OF A STIMULUS TO VIGOROUS ENERGY POLICY AS THE MEMORY OF THE DAMAGE CAUSED BY THESE ACTIONS FADES. THIS COULD ERODE SUPPORT FOR COMMON ACTION IN THE IEA.

I. IMPLICATIONS AND PRIORITIES

THE PRELIMINARY LTEA ESTIMATES OF SUPPLY AND DEMAND TRENDS MEAN THAT UNLESS WE ENHANCE THE IMPACT OF NATIONAL ENERGY POLICIES SIGNIFICANTLY, OUR COMMON VULNERABILITY TO SUPPLY DISRUPTIONS WILL CONTINUE TO RISE OVER THE NEXT TEN YEARS, THUS SIGNIFICANTLY INCREASING THE POTENTIAL LEVEL OF ECONOMIC DAMAGE TO OUR ECONOMIES AND THE COST OF PROTECTING OURSELVES THROUGH THE EMERGENCY OIL SHARING PROVISIONS OF THE IEP.

THE IEP HELPS TO MINIMIZE THE IMPACT OF FUTURE SUPPLY DISRUPTIONS. ASSUMING 90 DAYS OF TRUE EMERGENCY STOCKS BY

1980, IEA MEMBERS BY ADOPTING DEMAND RESTRAINT MEASURES HAVE THE CAPABILITY OF SUSTAINING A 25 PERCENT SHORTFALL IN IMPORTS AT 90 PERCENT OF NORMAL CONSUMPTION FOR AT LEAST ONE YEAR. HOWEVER, THE EFFECTIVENESS OF THIS EMERGENCY MECHANISM DEPENDS CRITICALLY ON OUR HAVING MET OUR COMMITMENTS TO PREPOSITION DEMAND RESTRAINT MEASURES

CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 062056

AND EMERGENCY OIL STOCKS. WE MUST CONTINUE TO MONITOR CLOSELY OUR PROGRESS IN MEETING THESE COMMITMENTS, IMPROVING THEM AS APPROPRIATE TO ENSURE THEIR EFFECTIVENESS.

BUT THE MAJOR CONCLUSION TO BE DRAWN FROM THESE PROJECTIONS IS THAT THEY IMPLY AN UNACCEPTABLY HIGH LEVEL OF VULNERABILITY. OUR ABILITY TO ACHIEVE A SUBSTANTIALLY LOWER LEVEL OF DEPENDENCE THAN THAT FORECAST IS ONE OF THE PRINCIPAL CHALLENGES FACING OUR INDIVIDUAL GOVERNMENTS AND WILL BE THE MAJOR TEST OF THE EFFECTIVENESS OF OUR COOPERATION.

THE LONG-TERM PROGRAM PROVIDES US WITH THE ESSENTIAL SET OF POLICY TOOLS WITH WHICH TO REALIZE OUR REDUCED DEPENDENCE GOALS. THE SUCCESSFUL NEGOTIATIONS OF THIS PROGRAM WAS A MAJOR ACCOMPLISHMENT, BUT THE NEXT STEP -- ITS CONCRETE IMPLEMENTATION -- WILL BE MUCH MORE DIFFICULT. IT WILL REQUIRE THE COMMITMENT OF MAJOR NATIONAL RESOURCES AND SUSTAINED AND MEANINGFUL COOPERATION.

WE ARE COMMITTED IN THE LONG-TERM PROGRAM TO ESTABLISH

JOINT OBJECTIVES FOR REDUCED IMPORT DEPENDENCE. OUR DECISIONS ON THESE GOALS AND OUR COMMON COMMITMENT TO ACHIEVE THEM MUST REFLECT OUR DETERMINATION TO REDUCE OUR DEPENDENCE SUBSTANTIALLY BELOW THOSE LEVELS WHICH WOULD RESULT FROM A CONTINUATION OF MARKET FORCES AND THOSE PRELIMINARY POLICY MEASURES TAKEN ACCOUNT OF IN THE LTEA.

PRELIMINARY ANALYSIS OF THE POTENTIAL FROM SUCH A VIGOROUS POLICY INDICATE THAT WE COULD HOPE TO CUT IEA DEMAND FOR OPEC OIL IN 1985 BY SOME 8-10 MMBD FROM THE LEVELS PROJECTED IN THE DRAFT LTEA MARKET FORCES CASE. A CLEAR IEA PLAN TO MEET THIS REDUCED IMPORT DEPENDENCE TARGET WILL ALSO, TO THE EXTENT THAT OUR POLICY AND RESOURCE COMMITMENTS MAKE IT CREDIBLE, IMPACT ON OPEC PRICING DECISIONS BY CHANGING OIL PRODUCERS' PERCEPTIONS OF THE SIZE OF THEIR FUTURE MARKET.

THEREFORE, AS WE AGREED IN THE LONG TERM PROGRAM, WE SHOULD PROCEED IMMEDIATELY IN THE STANDING GROUP ON LONG-  
CONFIDENTIAL

CONFIDENTIAL

PAGE 06 STATE 062056

TERM COOPERATION TO FORMULATE FOR GOVERNING BOARD APPROVAL BY JULY 1 ANNUAL IEA AGGREGATE IMPORT DEPENDENCY OBJECTIVES FOR THE NEXT TEN YEARS AGAINST WHICH WE CAN MEASURE OUR PERFORMANCE AS A GROUP AND AS INDIVIDUAL COUNTRIES. THESE OBJECTIVES SHOULD ENSURE OUR CAPABILITY OF MEETING OUR LONG TERM GOALS AND PROVIDE A MEANS TO MEASURE OUR SUCCESS IN ACHIEVING THEM. THEY SHOULD BE COMPOSED OF AN OVERALL GROUP TARGET FOR THE REDUCTION IN OUR DEPENDENCE ON IMPORT-ED OIL OVER THE NEXT DECADE AND COMPLEMENTARY TARGETS FOR A REDUCTION IN THE RATE OF GROWTH OF OIL CONSUMPTION RELATIVE TO ECONOMIC GROWTH AND FOR INCREASING THE TOTAL SUPPLY OF ENERGY ON WORLD MARKETS AND FOR ACCELERATING INTERFUEL SUBSTITUTIONS. THIS EFFORT, IN THE FIRST INSTANCE, MUST INVOLVE RAPID AND EFFECTIVE IMPLEMENTATION OF THE VARIOUS ELEMENTS OF THE LONG TERM PROGRAM, AS WELL AS IDENTIFICATION AND ACTION ON NEW INITIATIVES AIMED AT REDUCING IMPORT DEPENDENCY IN THE MID AND LONG TERM (1980 AND 1985). BUT IT SHOULD BE SUPPLEMENTED BY VIGOROUS PROGRAMS TO SUPPORT ENERGY RESEARCH AND DEVELOPMENT, INCLUDING SUCH ITEMS AS EARLY COMMERCIALIZATION OF SYNTHETIC FUELS AND APPLICATION OF NEW TECHNOLOGY TO CONVENTIONAL ENERGY SOURCES, THAT WILL PROVIDE ASSURANCE THAT OUR PRESENT DEPENDENCE ON OIL IMPORTS WILL BE REDUCED EVEN FURTHER IN THE LATE 1980'S AND 1990'S AS NEW ENERGY SOURCES ARE DEVELOPED.

WE MUST ALSO KEEP IN MIND THAT THE TIME FRAME FOR POLICY ACTIONS TO ACHIEVE OUR OBJECTIVE OF REDUCING IMPORT DEPENDENCE BY 1980 AND 1985 IS SHORT BECAUSE OF THE LAGS

IN IMPLEMENTING PROGRAMS FOR NEW SUPPLY AND IN OBTAINING RESULTS FROM PROGRAMS TO REDUCE CONSUMPTION. THUS, WE HAVE ONLY A YEAR OR AT MOST TWO TO PUT IN PLACE THE POLICIES AND PROGRAMS WHICH WILL MAKE POSSIBLE THE ACHIEVEMENT OF OUR 1980 AND 1985 TARGETS.

THE LTEA ANALYSIS ATTRIBUTES A SUBSTANTIAL PROPORTION OF PROJECTED INCREASES IN FUTURE OIL IMPORTS TO THE UNITED STATES. IN A RECENT MESSAGE TO CONGRESS, PRESIDENT FORD PROPOSED:

-- Deregulation of natural gas prices to parallel the  
CONFIDENTIAL

CONFIDENTIAL

PAGE 07 STATE 062056

ALREADY LEGISLATED PHASED DECONTROL OF OIL PRICES TO ENABLE THIS MARKET MECHANISM TO OPERATE IN HOLDING DOWN CONSUMPTION AND STIMULATING NEW SUPPLIES.

-- Legislation to speed a decision on a transportation system to obtain access to large new gas supplies in Alaska.

-- Establishment of a process to control LNG imports at about one TCF annually.

-- Increased funding for nuclear research and development, and for identification of new uranium resources and intensified effort to resolve nuclear fuel cycle problems.

-- Urgent action on legislation to ensure the availability of enriched uranium both domestically and to foreign buyers.

-- An increase in coal leasing on federal lands and rapid action to convert utilities and industrial plants from oil and gas to coal.

-- Rapid action on pending legislation to allow oil production from naval petroleum reserves.

-- Creation of a new government facility to assist financing of major new energy facilities (the Energy Independence Authority), legislation to expedite energy regulation and to provide loan guarantees for synthetic fuel production.

-- Federal assistance to areas substantially impacted by major energy development.

## II. IMMEDIATE WORK PROGRAM

THE ESTABLISHMENT OF REDUCED IMPORT DEPENDENCE GOALS  
WILL BE MEANINGFUL AND CREDIBLE ONLY IF THEY ARE SUPPORTED  
BY VIGOROUS AND VISIBLE POLICY ACTION BOTH IN THE IEA AND,  
MORE IMPORTANTLY, BY NATIONAL GOVERNMENTS. THUS, SIMUL-  
CONFIDENTIAL

CONFIDENTIAL

PAGE 08 STATE 062056

TANEOUSLY WITH THE ESTABLISHMENT OF SUCH TARGETS, WE MUST  
MOVE RAPIDLY TO GIVE CONTENT TO THE PROGRAM OF LONG-TERM  
COOPERATION.

1. REVIEWS OF NATIONAL PROGRAMS

THE VIGOROUS REVIEW OF NATIONAL CONSERVATION AND  
ACCELERATED PRODUCTION PROGRAMS HAS ALREADY PROVEN ONE OF  
OUR MOST EFFECTIVE MEASURES OF COOPERATION. NATIONAL PRO-  
GRAMS MUST CARRY A MAJOR SHARE OF THE BURDEN OF ACHIEVING  
REDUCED DEPENDENCE. WE MUST CONTINUE AND REINFORCE THESE  
ANNUAL REVIEWS, EXPANDING THEM WHENEVER POSSIBLE AND  
FEASIBLE TO PROVIDE MORE EFFECTIVE AND CONSTRUCTIVE  
CRITIQUES OF NATIONAL POLICIES AND MORE EXTENSIVE EXCHANGES  
OF INFORMATION AND EXPERIENCE. THESE REVIEWS PROVIDE A  
MECHANISM FOR THE STRENGTHENING OF NATIONAL PROGRAMS; THEY  
PROVIDE AN OPPORTUNITY TO MONITOR PROGRESS TOWARD JOINT  
TARGETS AND TO ASSURE THAT THE BURDEN AND BENEFITS OF THE

REDUCED DEPENDENCE EFFORT ARE SHARED EQUITABLY; THEY CAN  
ALSO BE USED TO FOCUS PUBLIC ATTENTION ON THE DEGREE OF  
OUR IMPORT DEPENDENCY AND THE DANGERS OF OUR VULNERABILITY.

2. COOPERATION IN SPECIFIC ENERGY SECTORS.

WE HAVE AGREED UNDER THE LONG TERM PROGRAM (CHAPTER  
III B, IEA/GB (75) 81 (3RD REV)) TO COOPERATE IN EFFORTS  
TO INCREASE PRODUCTION OF ENERGY FROM SPECIFIC ENERGY  
SECTORS. WE HAVE ALREADY BEGUN WORK PROGRAMS IN THE  
NUCLEAR AND COAL SECTORS. THESE TWO ENERGY SOURCES  
REPRESENT THE MAJOR ALTERNATIVES TO CONTINUING DEPENDENCE  
ON IMPORTED OIL AVAILABLE OVER THE NEXT DECADE. IF WE  
DO NOT ACHIEVE A SUBSTANTIAL CONTRIBUTION TO ENERGY  
SUPPLIES FROM THESE TWO SOURCES IN THIS TIME PERIOD, IT  
IS HIGHLY UNLIKELY THAT WE CAN ACHIEVE OUR REDUCED  
DEPENDENCE OBJECTIVES. THEREFORE, THEY SHOULD RECEIVE  
OUR PRIORITY ATTENTION. WE ALSO PROPOSE THAT THE SLT IN  
BOTH ITS COAL AND NUCLEAR REVIEWS STUDY THE DIMENSIONS OF  
POSSIBLE UNAVOIDABLE SHORTFALLS IN EXPECTED OUTPUT LEVELS.  
THESE SEPARATE ANALYSES COULD FORM THE BASIS OF A FUTURE  
ENERGY CONTINGENCY STUDY TO DETERMINE THE ROLE OF INTER-  
CONFIDENTIAL

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PAGE 09 STATE 062056

FUEL SUBSTITUTION OR OTHER MEASURES THAT MIGHT BE NEEDED  
IF THESE SHORTFALL ACTUALLY DO TAKE PLACE.

A. NUCLEAR SECTOR - LAST SPRING WE BEGAN A MAJOR EXERCISE TO (1) ASSESS MEMBER COUNTRY NUCLEAR PROGRAMS; (2) IDENTIFY MAJOR OBSTACLES TO THE ACHIEVEMENT OF NATIONAL NUCLEAR OBJECTIVES; AND (3) TO FORMULATE AND ADOPT, WHEREVER POSSIBLE AND DESIRABLE, JOINT MEASURES AND PROGRAMS TO OVERCOME THESE OBSTACLES.

THUS FAR, THIS EFFORT HAS PROCEEDED SATISFACTORILY. THE MOST RECENT REVIEW OF IEA MEMBER COUNTRY NUCLEAR PROGRAMS WILL BE COMPLETED WITHIN THE NEXT FEW WEEKS. A NUMBER OF OBSTACLES TO THE REALIZATION OF NATIONAL OBJECTIVES HAVE ALREADY BEEN IDENTIFIED SUCH AS UNCERTAINTY OVER FUTURE SUPPLY AND DEMAND FOR NATURAL AND ENRICHED URANIUM UNDER BOTH NORMAL AND EMERGENCY CONDITIONS, PUBLIC ACCEPTANCE OF NUCLEAR ENERGY, AND REPROCESSING AND OTHER PROBLEMS ASSOCIATED WITH THE BACK END OF THE FUEL CYCLE.

BUT FORMULATION AND IMPLEMENTATION OF COOPERATIVE PROGRAMS TO MEET THESE PROBLEMS COULD BE IMPROVED BY AVOIDING THE CURRENT DISPERSION OF RESPONSIBILITY FOR CONSIDERATION OF THESE NUCLEAR QUESTIONS AMONG A NUMBER OF WORKING GROUPS.

THE UNITED STATES PROPOSES THAT THE SLT PREPARE A WORKING MANDATE FOR A NEW NUCLEAR FUEL CYCLE SUB-GROUP. WE BELIEVE THAT THE MANDATE OF THIS NEW GROUP SHOULD INCLUDE RESPONSIBILITY FOR:

-- NUCLEAR POWER FORECASTS, INCLUDING A COMPARISON OF FORECASTING TECHNIQUES AND METHODS FOR TRANSLATING THIS INFORMATION INTO REQUIREMENTS AND EXAMINATION OF THE NEED FOR FACILITIES FOR NATURAL URANIUM, CONVERSION, ENRICHMENT SERVICES, FUEL FABRICATION, CHEMICAL REPROCESSING, URANIUM AND PLUTONIUM RECYCLE, WASTE TREATMENT, AND WASTE STORAGE;

-- DEVELOPMENT OF CRITERIA FOR ASSESSING NATIONAL NUCLEAR PROGRAMS AND THE IDENTIFICATION OF CONSTRAINTS ON THE USE OF NUCLEAR POWER AND WAYS TO REMOVE THEM;

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PAGE 10 STATE 062056

DETERMINATION OF WHAT UNAVOIDABLE SHORTFALLS IN NUCLEAR POWER OUTPUT MIGHT OCCUR AS A FUNCTION OF TIME THAT WOULD REQUIRE PREPARATION OF SUBSTITUTE ENERGY RESOURCES OR

CONSERVATION MEASURES. THESE WOULD BE IDENTIFIED IN THE SEPARATE CONTINGENCY STUDY TO BE CONDUCTED UNDER SLT AUSPICES.

-- EXAMINATION OF ALL FACETS OF THE FRONT END OF THE FUEL CYCLE INCLUDING: NATURAL URANIUM, CONVERSION AND ENRICHMENT SERVICES, AND FUEL FABRICATION TO HELP ASSURE ADEQUATE CAPABILITY TO SUPPORT NUCLEAR POWER NEEDS; EXAMINING WAYS TO IDENTIFY NEW FAVORABLE LOCATIONS FOR NATURAL URANIUM RESOURCES THROUGHOUT THE WORLD; EXPLORING THE NEED FOR AND DEVELOPMENT OF STOCKPILES, AND AN EMERGENCY SHARING MECHANISM FOR BOTH NATURAL AND ENRICHED URANIUM.

-- EXAMINATION OF ALL FACETS OF THE BACK END OF THE NUCLEAR FUEL CYCLE TO HELP ASSURE ADEQUATE CAPACITY INCLUDING: CHEMICAL REPROCESSING, URANIUM AND PLUTONIUM RECYCLE, AND WASTE MANAGEMENT (INTERNATIONAL AND NATIONAL PLANNING OF WASTE STORAGE SITES).

-- EXAMINATION OF FINANCIAL REQUIREMENTS FOR ALL FACETS OF THE NUCLEAR FUEL CYCLE TO IDENTIFY COOPERATIVE ACTION.

THE COMMITTEE ON ENERGY RESEARCH AND DEVELOPMENT WOULD CONTINUE TO HAVE RESPONSIBILITY FOR NUCLEAR FUEL CYCLE RESEARCH AND DEVELOPMENT BUT WOULD CLOSELY COORDINATE ITS OVERALL PROGRAM PLANNING AND INDIVIDUAL RESEARCH STRATEGIES WITH THE NUCLEAR FUEL CYCLE SUB-GROUP. THE AD HOC NEA/IEA R&D GROUP NOW EXAMINING PORTIONS OF THE WASTE MANAGEMENT AND REPROCESSING CYCLE SHOULD COMPLETE ITS

WORK UNDER THE PRESENT STRUCTURE.

B. COAL: TOGETHER WITH NUCLEAR POWER AND EXPANDED IEA PRODUCTION OF OIL AND GAS, EXPANDED PRODUCTION AND UTILIZATION OF COAL MUST RECEIVE OUR PRIORITY ATTENTION AS A MAJOR ALTERNATIVE TO IMPORTED OIL OVER THE NEXT DECADE. ENSURING THAT OUR PROJECTIONS OF INCREMENTAL COAL PRODUCTION AND USE ARE REALIZED IS PARTICULARLY CONFIDENTIAL

CONFIDENTIAL

PAGE 11 STATE 062056

IMPORTANT TO ATTAINMENT OF OUR REDUCED DEPENDENCY OBJECTIVES. THE URGENCY OF THIS REQUIREMENT SHOULD TAKE INTO ACCOUNT THE CONSTRAINTS PRESENT IN THE NUCLEAR SECTOR WHICH HAVE ALREADY RESULTED IN NATIONAL PROJECTIONS OF NUCLEAR POWER BEING SIGNIFICANTLY REDUCED.

A WORK PROGRAM IN THE COAL SECTOR IS NOW BEING DEVELOPED BY THE SECRETARIAT UNDER THE DIRECTION OF THE SLT. THE UTILITY OF THIS EFFORT COULD BE ENHANCED IF THE ANALYSIS OF DIFFERENT FACTORS TOOK INTO ACCOUNT NATIONAL

AND IEA COAL UTILIZATION OBJECTIVES FOR 1980 AND 1985.

THE INITIAL STUDY, WHICH IS DUE TO BE COMPLETED IN JUNE 1976, WILL CONSIDER:

-- IEA COAL RESERVES

-- THE ROLE OF COAL IN ELECTRICAL GENERATION

-- IDENTIFICATION OF CONSTRAINTS ON COAL DEVELOPMENT

-- THE FEASIBILITY OF COAL/OIL POWER STATIONS

-- COAL R&D PROGRAMS AND POSSIBLE LONG TERM EFFECT ON COAL DEMAND

-- POSSIBLE IEA COOPERATIVE PROGRAMS IN THE COAL SECTOR

TO COMPLEMENT WORK ALREADY UNDERWAY ON AN EMERGENCY SHARING SCHEME IN THE URANIUM AREA, THE SLT SHOULD BEGIN TO EXAMINE PROMPTLY THE NEED FOR AN EMERGENCY MECHANISM FOR COAL. THIS EXAMINATION SHOULD INCLUDE A REVIEW OF EXISTING OR PLANNED NATIONAL STOCKPILE PLANS AND OF COMMERCIAL STOCK LEVELS AS WELL AS THE POSSIBILITY OF A COOPERATIVE STOCKPILE PROGRAM AS A MEANS OF ASSISTING MEMBER COUNTRIES TO RATIONALIZE PRODUCTION AND SUPPLY PROGRAMS AND NATIONAL STOCKPILE TARGETS.

DRAWING ON THE COAL STUDY AND WORK DONE IN THE NUCLEAR FUEL CYCLE SUB-GROUP, THE SLT SHOULD EXAMINE THE POTENTIAL ROLE OF INTERFUEL SUBSTITUTION TO MEET ANY UNAVOIDABLE SHORTFALLS IN ENERGY SUPPLY FROM COAL OR

CONFIDENTIAL

CONFIDENTIAL

PAGE 12 STATE 062056

NUCLEAR POWER WITHOUT AN INCREASE IN OIL IMPORTS.

## 2. CONSERVATION

WE HAVE RECOGNIZED IN OUR COOPERATIVE PROGRAMS THAT MUCH OF OUR SUCCESS IN PREVENTING ANY INCREASE IN OUR DEPENDENCE IN THE SHORT-TERM AND REDUCING THAT DEPENDENCE IN THE LONG-TERM WOULD DEPEND CRITICALLY ON THE SUCCESS OF OUR CONSERVATION EFFORTS. WE SIMPLY CANNOT SUSTAIN THE RATES OF GROWTH FOR ENERGY CONSUMPTION PREVALENT IN THE 1960S AND EARLY 1970S IF WE HOPE TO ACHIEVE OUR REDUCED DEPENDENCY OBJECTIVES.

THE FIRST ANNUAL REVIEW OF MEMBERS' NATIONAL CONSERVATION PROGRAMS WAS COMPLETED LAST SUMMER. BASED ON PROJECTIONS SUBMITTED BY MEMBER COUNTRIES, WE HAVE DEVELOPED CONSERVATION TARGETS FOR 1976 AND 1977. THESE GOALS

APPEAR REASONABLE AND ATTAINABLE. HOWEVER, THEY MAY NOT BE COORDINATE WITH THE LONGER TERM REDUCED DEPENDENCY OBJECTIVE WE ADOPT. THE RELATIONSHIP BETWEEN THESE ANNUAL TARGETS AND LONGER RANGE CONSERVATION GOALS FOR 1980 AND 1985 MUST NECESSARILY AWAIT THE DEVELOPMENT OF THE LATTER. THIS SHOULD BE AN EARLY PRIORITY FOR THE SLT. THIS TASK MUST BE UNDERTAKEN IN LIGHT OF OUR BASIC REDUCED DEPENDENCY OBJECTIVE AND SHOULD ENSURE THAT THE TARGETS DEVELOPED WILL CONTRIBUTE TO A REDUCTION IN THE RATE OF INCREASE IN ENERGY CONSUMPTION RELATIVE TO ECONOMIC GROWTH.

TO ACHIEVE OUR GOALS, THE GROUP'S CONSERVATION ACTIVITIES MUST BE BROADENED AND STRENGTHENED SUBSTANTIALLY TO GO BEYOND THE NATIONAL REVIEW PROCESS AND TARGET SETTING. WE HAVE ALREADY MADE SOME PROGRESS TOWARDS ELABORATING AND REALIZING A COLLECTIVE CONSERVATION POLICY THROUGH OUR AGREEMENT ON A NUMBER OF DESIRABLE FACTORS IN NATIONAL CONSERVATION PROGRAMS. THE SLT WILL SHORTLY CONDUCT A SPECIAL EXAMINATION OF THE TRANSPORTATION SECTOR WHICH SHOULD CONTRIBUTE TO THIS EFFORT. OUR NEW ACTIVITIES SHOULD BE DESIGNED TO SUPPORT GOVERNMENT POLICIES WHICH WILL PROVIDE NEW STIMULUS FOR MORE RATIONAL ENERGY USE, THUS REINFORCING MARKET FORCES. HOWEVER, THEY SHOULD ALSO BE CONSISTENT WITH BROADER ECONOMIC OBJECTIVES.

CONFIDENTIAL

CONFIDENTIAL

PAGE 13 STATE 062056

THIS FIRST ANNUAL REVIEW REVEALED SIGNIFICANT DEFICIENCIES IN OUR OVERALL CONSERVATION EFFORT:

-- THERE ARE CONSIDERABLE DIFFERENCES IN THE QUALITY OF CONSERVATION PROGRAMS IN PLACE IN MEMBER COUNTRIES. NOT ALL NATIONAL PROGRAMS ARE OF EQUAL IMPACT WITH THE RESULT THAT THE CONSERVATION BURDEN IS NOT EQUITABLY DISTRIBUTED.

-- ALL NATIONAL PROGRAMS CAN BE IMPROVED. EVEN THE BETTER PROGRAMS HAVE GAPS IN THEM OR LACK EFFECTIVE MEASURES IN CERTAIN AREAS. HENCE, THE GROUPS' OVERALL CONSERVATION EFFORT IS NOT AS EFFECTIVE AS IT SHOULD BE.

-- CERTAIN WEAKNESSES IDENTIFIED IN SOME COUNTRIES TO VARYING DEGREES INCLUDED: A) FAILURE TO PERMIT PRICES TO RISE TO COMPETITIVE MARKET LEVELS; B) REMOVAL AND REDUCTION OF FUEL TAXES THAT COULD CONTRIBUTE TO DECLINE IN ENERGY CONSUMPTION; C) FAILURE TO INITIATE EFFECTIVE PROGRAMS IN SECTORS WHERE CONSUMPTION IS LOW AT PRESENT BUT WHICH IS LIKELY TO INCREASE RAPIDLY AS ECONOMIC GROWTH REVIVES.

THIS PROGRAM MUST BE SUBSTANTIALLY INTENSIFIED AND EXPANDED IMMEDIATELY TO PREVENT THE EXPECTED UPTURN IN ECONOMIC ACTIVITY RESULTING IN A SHARP INCREASE IN DEMAND FOR IMPORTED OIL. FOR EXAMPLE, THE SLT, SHOULD ACTIVELY CONSIDER ESTABLISHING EXPERT WORKING PARTIES TO EXCHANGE INFORMATION AND DEVELOP NEW INITIATIVES IN SPECIFIC AREAS SUCH AS:

- ELECTRICAL UTILITY REGULATION
- DISTRICT HEATING
- AVAILABILITY OF FINANCING FOR ENHANCED INDUSTRIAL AND RESIDENTIAL INSULATION PROGRAMS

-- CONSUMER EDUCATION

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CONFIDENTIAL

PAGE 14 STATE 062056

-- TRANSPORTATION

-- OTHER AREAS

BUILDING ON THE IN-DEPTH EXAMINATION WHICH WILL SHORTLY BEGIN ON THE TRANSPORT SECTOR, THE SLT SHOULD CONDUCT A SYSTEMATIC EXAMINATION OF THE POSSIBILITIES FOR ENERGY CONSERVATION IN DIFFERENT SECTORS. PRIORITY SHOULD BE GIVEN TO THE INDUSTRIAL, ELECTRICITY AND RESIDENTIAL SECTORS. BASED ON THE RESULTS OF THIS WORK, THE SLT SHOULD DEVELOP A DETAILED INVENTORY OF CONSERVATION PRACTICES, THE ADOPTION OF WHICH NATIONAL GOVERNMENTS COULD ENCOURAGE.

3. JOINT ENERGY PRODUCTION PROJECTS: THE PROMPT ESTABLISHMENT OF LARGE-SCALE NEW JOINT PROJECTS WOULD

MAKE A VITAL CONTRIBUTION TO THE SUCCESS OF OUR EFFORTS TO REDUCE OUR OIL IMPORT DEPENDENCY. IN ADDITION TO PROVIDING SIGNIFICANT INCREMENTS OF NEW ENERGY SUPPLIES, THEY REINFORCE THE CREDIBILITY OF CONSUMER ACTION VIS-A-VIS OPEC BY DEMONSTRATING CONCRETELY THAT CONSUMER ENERGY COOPERATION DOES WORK AND WILL MAKE A REAL CONTRIBUTION TO REDUCING OUR DEPENDENCE ON OIL IMPORTS.

WE BELIEVE THE IEA SHOULD MOVE FORWARD URGENTLY IN THIS EFFORT. TO PROMOTE THIS TYPE OF COOPERATION, THE UNITED STATES HAS INDICATED THAT IN RETURN FOR OTHER COUNTRIES PARTICIPATING IN LARGE NEW PROJECTS IN THE U.S. WHICH DEVELOP ENERGY THAT WOULD OTHERWISE NOT HAVE BEEN PRODUCED, IT WILL, WHEREVER FEASIBLE, GUARANTEE THAT A

PORTION OF THE INCREMENTAL ENERGY PRODUCTION CAN BE EXPORTED. SUCH PROJECTS, OF COURSE, WILL BE CONSIDERED ON THEIR MERITS IN THEIR ENVIRONMENTAL, ECONOMIC AND REGIONAL CONTEXT. THE U.S. BELIEVES PRIORITY SHOULD BE GIVEN TO POSSIBLE JOINT PROJECTS IN THE FOLLOWING AREAS:

-- JOINT COAL DEVELOPMENT PROJECTS, FOR BOTH STEAM AND METALLURGICAL COAL,

-- JOINT PROJECTS FOR THE DEVELOPMENT OF SYNTHETIC FUELS,  
CONFIDENTIAL

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PAGE 15 STATE 062056

-- JOINT EFFORTS TO ENSURE THAT ADEQUATE ENRICHED URANIUM SERVICES ARE AVAILABLE.

THE UNITED STATES IS NOW DEVELOPING A MECHANISM THAT WILL FACILITATE CONSIDERATION OF JOINT PROJECTS UNDER THE IEA'S GUIDING PRINCIPLES. WE HOPE THAT OTHER IEA MEMBERS ARE ALSO PROCEEDING TO ELABORATE SUCH PROCEDURES. WE WILL BE COMING FORWARD AT AN EARLY DATE WITHIN THE SLT WITH A DETAILED EXPLANATION OF OUR PROCEDURES AND WITH SUGGESTIONS FOR A NUMBER OF SPECIFIC MAJOR ENERGY PROJECTS WHICH WE BELIEVE PARTICULARLY APPROPRIATE FOR IEA COOPERATION. WE ASSUME OTHER IEA COUNTRIES ARE ALSO CONSIDERING POSSIBLE AREAS FOR JOINT COOPERATION.

DURING THE NEGOTIATIONS OF THE LONG-TERM PROGRAM, WE EXAMINED VARIOUS PROPOSALS FOR THE ESTABLISHMENT OF A COMMON IEA FINANCIAL FACILITY TO PROVIDE SPECIFIC MEASURES OF ASSISTANCE TO PRIVATE INVESTORS FOR THE DEVELOPMENT OF NEW ENERGY ON A PROJECT-BY-PROJECT BASIS. THE US CONTINUES TO BELIEVE THAT THE BULK OF SUCH SPECIFIC ASSISTANCE CAN BEST BE PROVIDED THROUGH NATIONAL PROGRAMS. FOR JOINT IEA PROJECTS IN THE U.S., WE WILL OF COURSE BE PREPARED TO CONSIDER ACCESS TO THE

DOMESTIC FACILITIES WE WILL BE ESTABLISHING FOR PROVIDING INCENTIVES TO INVESTMENT IN NON-CONVENTIONAL ENERGY DEVELOPMENT.

ONCE OUR RESPECTIVE NATIONAL INCENTIVE PROGRAMS ARE MORE CLEARLY DEFINED, THE IEA SHOULD REEXAMINE THE POSSIBLE UTILITY OF SOME TYPE OF IEA FACILITY. SUCH A COMMON UNDERTAKING COULD HAVE SIGNIFICANT POLITICAL BENEFITS IN TERMS OF FURTHER DEMONSTRATING OUR COMMITMENT TO JOINT ACTION.

#### 4. ENERGY RESEARCH AND DEVELOPMENT

THIS AREA IS CRUCIAL TO OUR LONG TERM ENERGY GOAL  
OF REDUCING OUR COMMON DEPENDENCE ON IMPORTED OIL. CO-  
OPERATION IN ENERGY R&D CAN ALSO MAKE AN IMPORTANT  
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PAGE 16 STATE 062056

CONTRIBUTION OVER THE SHORT AND MEDIUM TERM TO CHANGING  
THE PERCEPTIONS OF KEY OIL EXPORTING COUNTRIES CONCERNING  
THE FUTURE EVOLUTION OF ENERGY MARKETS, THUS HAVING A  
SIGNIFICANT INFLUENCE ON THEIR OIL PRICING DECISIONS.  
WE SHOULD CONTINUE TO USE THE IEA AS THE FOCUS OF OUR  
ENERGY R&D COOPERATION AND AS THE BASIC FRAMEWORK FOR  
BILATERAL AND MULTILATERAL COOPERATIVE PROGRAMS.

WE HAVE AGREED THAT OUR EFFORTS MUST MOVE BEYOND  
SIMPLE EXCHANGE OF INFORMATION AND IDENTIFICATION OF  
COOPERATIVE PROJECTS TO ACTUAL IMPLEMENTATION. IN  
PURSUIT OF THIS OBJECTIVE, THE ORIGINAL IEP AGREEMENT  
IDENTIFIED TEN DISTINCT AREAS FOR PRIORITY COOPERATION.  
SEVERAL SIGNIFICANT JOINT PROGRAMS HAVE ALREADY BEEN  
INITIATED. SINCE THEN, SEVEN ADDITIONAL AREAS FOR  
POSSIBLE JOINT EFFORTS ARE BEING EXAMINED. TO MOVE  
BEYOND TRADITIONAL INTERNATIONAL TECHNICAL COOPERATION AND  
TO ASSURE THAT OUR JOINT R&D COOPERATION SHOULD CONCEN-  
TRATE ON HARDWARE ORIENTED PROJECTS. WE HAVE ALSO  
DEVELOPED A SET OF GUIDING PRINCIPLES FOR OUR COOPERATIVE  
EFFORTS IN ENERGY RESEARCH AND DEVELOPMENT AND GUIDELINES  
FOR THE TREATMENT OF INTELLECTUAL PROPERTY.

OVER THE NEXT SEVERAL MONTHS, WE SHOULD CONCENTRATE  
ON IMPLEMENTING MORE HARDWARE-ORIENTED PROJECTS AND  
JOINT EFFORTS WHICH CAN ACCELERATE THE TIME OF NEW  
TECHNOLOGY IMPLEMENTATION AND REDUCE COSTS. WE MUST MOVE  
BEYOND THE INFORMATION EXCHANGE STAGE IN SUCH AREAS AS  
SOLAR ENERGY, CONSERVATION, WIND ENERGY AND RADIOACTIVE  
WASTE MANAGEMENT.

OUR EFFORTS TO COMPLETE THE R&D SYSTEMS ANALYSIS  
EFFORT ARE VITALLY IMPORTANT. THEY SHOULD ENABLE US TO

ELABORATE RECOMMENDATIONS FOR THE ESTABLISHMENT OF A  
JOINT STRATEGY FOR ENERGY R&D AS WE AGREED LAST  
NOVEMBER. THIS WILL ASSIST IEA MEMBERS TO ASSESS THE  
IMPACT OF ENERGY TECHNOLOGIES, AND HELP THEM DECIDE THE  
MAGNITUDE AND PRIORITY FOR NATIONAL R&D PROGRAMS. IT  
WILL ALSO PROVIDE THE ANALYTICAL AND POLICY BASIS FOR  
FURTHER IMPLEMENTATION OF COOPERATIVE IEA ENERGY R&D  
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PAGE 17 STATE 062056

PROGRAMS.

### III. SECURITY OF SUPPLY

AT THE SAME TIME THAT WE WORK TO IMPLEMENT THE LONG TERM PROGRAM TO REDUCE OUR IMPORT DEPENDENCE, WE MUST LOOK TO THE EFFICACY OF THE MECHANISMS ALREADY IN PLACE TO PROTECT OUR ECONOMIES AGAINST THE ECONOMIC AND POLITICAL IMPACT OF FUTURE SUPPLY DISRUPTIONS. THE INTEGRITY OF THESE MECHANISMS ARE ESSENTIAL IF THEY ARE TO FULFILL THE FUNCTION WE HAVE GIVEN THEM -- TO PROTECT OUR ECONOMIES FROM THE ECONOMIC DAMAGE RESULTING FROM FUTURE SUPPLY DISRUPTIONS.

A DETAILED ELABORATION OF THE IEP EMERGENCY PROGRAM HAS BEEN UNDERWAY IN THE SEQ FOR OVER A YEAR. WE HAVE ALREADY AGREED TO RAISE EMERGENCY STOCK LEVELS UNDER THE IEA DEFINITION FROM THE ORIGINAL 60 TO 70 DAYS AND TO SET AS A TARGET REACHING 90 DAYS OF SELF-SUFFICIENCY BY 1980. INITIAL DATA ON NATIONAL DEMAND RESTRAINT HAS BEEN COLLECTED. THESE INDICATE THAT SIGNIFICANT WEAKNESSES EXIST.

GIVEN OUR JOINT COMMITMENTS TO MOVE TO 90 DAYS OF EMERGENCY STOCKS WITHIN FOUR YEARS AND TO DEVELOP PRE-POSITIONED DEMAND RESTRAINT PROGRAMS AND THE LTEA PRELIMINARY PROJECTIONS OF INCREASING IMPORT DEPENDENCE BY IEA COUNTRIES OVER THIS PERIOD, IT IS IMPERATIVE THAT WE MODIFY AND IMPROVE THESE COMMITMENTS TO ENSURE THEY WILL BE EFFECTIVE.

RECENTLY COMPLETED PRELIMINARY REPORTS BY THE SECRETARIAT ON THE EMERGENCY RESERVE SITUATION IN PARTICIPATING COUNTRIES REVEALED THAT:

-- AS OF JULY 1, 1975, ALL IEA COUNTRIES BUT ONE MET THE 60 DAY EMERGENCY STOCK REQUIREMENT THEN IN EFFECT.

-- HOWEVER, MEASURED AGAINST THE 70 DAY EMERGENCY STOCK REQUIREMENT NOW IN EFFECT, THERE ARE SIX COUNTRIES WHOSE STOCK LEVELS FALL BELOW THE REQUIRED LEVEL OF SELF-  
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PAGE 18 STATE 062056

SUFFICIENCY.

- COMMERCIAL WORKING STOCKS, WHICH ARE INCLUDED IN THE IEA DEFINITION OF EMERGENCY STOCKS, REPRESENT ON AVERAGE

ABOUT 45 DAYS OF TOTAL EMERGENCY STOCKS. AS THESE WORKING STOCKS ARE DRAWN DOWN SIGNIFICANTLY, WE WOULD RISK BEGINNING THE PROCESS OF GENERAL DISLOCATION IN OUR ECONOMIES WHICH THEY ARE EXPRESSLY DESIGNED TO PROTECT.

THERE ARE CERTAIN WEAKNESSES IN THE EMERGENCY STOCK PROGRAM WHICH SHOULD BE CORRECTED. AS A FIRST STEP, WE SHOULD RE-EXAMINE THE IEP EMERGENCY STOCK DEFINITION TO ENSURE THAT PETROLEUM PRODUCTS ESSENTIAL TO THE OPERATION OF THE DOMESTIC REFINING AND DISTRIBUTION SYSTEMS ARE EXCLUDED.

RECOGNIZING THE SEVERE ENVIRONMENTAL, SITING AND FINANCIAL CONSTRAINTS SOME IEA MEMBER COUNTRIES MIGHT FACE IN THIS PROCESS, THE UNITED STATES IS PREPARED TO EXPLORE THE POSSIBILITY OF A JOINT IEA STOCKPILE PROGRAM PURSUANT TO WHICH OTHER COUNTRIES COULD USE SALT DOMES IN THE U.S. WHICH ARE SURPLUS TO DOMESTIC PETROLEUM STORAGE REQUIREMENTS.

WE SHOULD ALSO COMPLETE OUR ANALYSIS OF THE CONTRIBUTION OF FUEL SWITCHING CAPACITY AND STANDBY PRODUCTION CAPABILITY TOWARD MEETING NATIONAL COMMITMENTS TO MAINTAIN EMERGENCY STOCKS UNDER THE IEP.

THE SEQ SHOULD BE REQUESTED TO EXAMINE THE EFFECTIVENESS OF OUR EMERGENCY MECHANISMS AND REPORT TO THE GOVERNING BOARD BY NOVEMBER 1, 1976. END QUOTE. KISSINGER

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